

## **Foreign Exchange Currency Fraud Alert**

### **Beware of Foreign Currency Trading Frauds**

The advertisements seem too good to pass up. They tout high returns coupled with low risks from investments in foreign currency ("forex") contracts. Sometimes they even offer lucrative employment opportunities in forex trading.

Do these deals sound too good to be true? Unfortunately, they are, and investors need to be on guard against these scams. They may look like a new sophisticated form of investment opportunity, but in reality they are the same old trap – financial fraud in fancy garb.

Forex trading can be legitimate for governments and large institutional investors concerned about fluctuations in international exchange rates, and it can even be appropriate for some individual investors. But the average investor should be wary when it comes to forex offers.

The Commodity Futures Trading Commission (CFTC) and the North American Securities Administrators Association (NASAA) warn that off-exchange forex trading by retail investors is at best extremely risky, and at worst, outright fraud.

#### **What are forex contracts?**

Forex contracts involve the right to buy or sell a certain amount of a foreign currency at a fixed price in U.S. dollars. Profits or losses accrue as the exchange rate of that currency fluctuates on the open market. It is extremely rare that individual traders actually see the foreign currency. Instead, they typically close out their buy or sell commitments and calculate net gains or losses based on price changes in that currency relative to the dollar over time.

Forex markets are among the most active markets in the world in terms of dollar volume. The participants include large banks, multinational corporations, governments, and speculators. Individual traders comprise a very small part of this market. Because of the volatility in the price of foreign currency, losses can accrue very rapidly, wiping out an investor's down payment in short order.

#### **How do the scams work?**

Forex scams attract customers with sophisticated-sounding offers placed in newspaper advertisements, radio promotions, or on Internet sites. Promoters often lure investors with the concept of leverage: the right to "control" a large amount of foreign currency with an initial payment representing only a fraction of the total cost. Coupled with predictions about supposedly inevitable increases in currency prices, these contracts are said to offer huge returns over a short time, with little or no downside risk.

In a typical case, investors may be assured of reaping tens of thousands of dollars in just a few weeks or months, with an initial investment of only \$5,000. Often, the investor's money is never actually placed in the market through a legitimate dealer, but simply diverted – stolen -- for the personal benefit of the con artists.

#### **What are regulators doing?**

The CFTC is the federal agency with the primary responsibility for overseeing the commodities markets, including foreign currency trading. Many state securities regulators also have the right under their state laws to take action against illegal commodities investments. Sometimes, the CFTC and the states work together on cases. Some examples –

>> In 2005, the CFTC and the Commissioner of Corporations of the State of California sued National Investment Consultants, Inc., and others in US District Court for the Northern District of California for engaging in a forex scam involving approximately \$2 million in customer funds. In 2006, the Court ordered restitution and fines amounting to \$3.4 million.

>> Also in 2005, the CFTC and the Texas State Securities Board (TSSB) engaged in a cooperative enforcement effort against Premium Income Corp. (PIC) and its principals. The CFTC and SEC filed an

action in U.S. District Court for the Northern District of Texas and the TSSB filed an administrative action charging PIC and its principals with engaging in an illegal \$11 million forex operation. To date, the federal court has found three corporate defendants liable to pay restitution of \$12 million and each was assessed a fine of \$37 million. The State of Texas also has obtained cease and desist orders along with various criminal indictments and convictions. PIC's president is currently incarcerated on charges stemming from his forex scam.

>> In 2004, Gregory Blake Baldwin, of Utah, pleaded guilty to fraud after his firm, Sunstar Funding, accepted \$228,500 from 33 investors for placement into the foreign currency market. Their money was not placed in the foreign currency market but used to pay some past investors and for personal expenses.

>> In 2003, the CFTC and the State of Oregon Department of Consumer and Business Services sued Orion International, Inc., and its principals in US District Court for the District of Oregon for fraudulently soliciting over \$40 million to participate in a purported forex fund. Orion, and its president Russell Cline, misappropriated virtually all the customer funds. In 2006, the Court entered fines and restitution orders against the defendants totaling almost \$150 million. Cline is currently incarcerated on charges stemming from his forex scam.

>> In 2002, the CFTC, SEC and State of Utah filed action against a company known as "4NExchange" for violations of state and federal laws as the firm's principals illegally offered foreign currency contracts through an alleged Ponzi scheme that cost investors nearly \$15 million.

#### **What are the warning signs of fraud?**

If you are solicited by a company that claims to trade foreign currencies and asks you to invest funds, you should be very careful. Watch out for the following warning signs:

1. Be wary of promises that sound too good to be true: "You can make six figure profits within a year; forex investments are very low risk; You can double your money." Get-rich-quick schemes, including those involving foreign currency trading, tend to be frauds.
2. Be skeptical about unsolicited phone calls offering investments, especially those from out-of-state salespersons or companies that are unfamiliar.
3. Be especially cautious if you have acquired a large sum of cash recently and are looking for an investment vehicle. In particular, retirees with access to their retirement funds may be attractive targets for fraudulent operators. Getting your money back once it is gone can be difficult or impossible.
4. Be wary of high-pressure efforts to convince you to send or transfer cash immediately to the firm, via overnight delivery or the Internet.
5. Be smart about the money you do put at risk. Even when purchased through the most reputable dealer, forex investments are extremely risky. If you are tempted to invest, make sure you understand these products and above all, only invest what you can afford to lose. Don't invest your rent money in a forex contract.

#### **Investigate before you invest**

Investors should make sure that anyone offering a forex investment is properly licensed and has a reputable business history. The public can obtain information about any firm or individual registered with the CFTC, including any actions taken against a registrant, through the National Futures Association (NFA) Background Affiliation Status Information Center (BASIC), available on the NFA website. You can also find out if someone is registered by calling the National Futures Association at 1-800-676-4632.

The CFTC's Division of Enforcement has established a toll-free telephone number to assist members of the public in reporting possible violations of the commodities laws. Call 866-FON-CFTC (866-366-2382). In addition, if you think that you have been a victim of a forex scam, you can report it through a form on the CFTC's website, or by mail addressed to the Office of Cooperative Enforcement, CFTC, 1155 21st St., NW,

Washington, DC 20581.

The Delaware Securities Division may also be able to help. You can call the Delaware Securities Division at (302) 577-8424 or go to [www.InvestorResourceCenter.org](http://www.InvestorResourceCenter.org) to file an online complaint.

**This Investor Alert has been prepared by the Commodity Futures Trading Commission (CFTC) and the North American Securities Administrators Association (NASAA)**